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TAGS: ECON ETRD EFIN PREL FR
SUBJECT: FINANCE MINISTER DOWN ON DOHA, IRAN; BULLISH ON
ECONOMY

REF: A. PARIS 4979
1B. PARIS 4980

Classified By: Ambassador Stapleton for reasons 1.4 (b) and (d)

SUMMARY

1. (C) French Finance Minister Breton told the Ambassador on July 24 that turmoil in the Mideast resulting from Iran's nuclear program and the war in Lebanon are of great concern to the world economy. Breton said negotiations in the Doha trade round are not working because the EU can go no farther on agriculture, citing food security needs in particular. He urged a greater focus on agreement in areas such as market access for manufactured goods, services and intellectual property. Breton thinks the French economy could double its growth rate in two to three years, but argues this will not happen if France elects Socialist candidate Segolene Royal in the 2007 Presidential election. END SUMMARY.

Mideast Turmoil

2. (U) On 24 July, the Ambassador met with Finance Minister Thierry Breton. Breton was joined by Gilles Mentre, the new diplomatic counselor in his cabinet, and by Phillippe Baudry, Deputy Assistant Secretary for Asia and the Americas in the Ministry's Directorate of Treasury and Economic Policy. Econ M/C and Econoff also attended.

3. (C) Breton highlighted his concern about the turmoil in the Mideast, which he thinks will strengthen the dollar in the near term. Longer term, he expressed concerns about exchange rates -- a weak dollar, an undervalued yuan, and an undervalued yen. He implied that these would have long-lasting distortive effects. He asserted that G7 Finance Ministers are trying to avoid saying anything about the yen so as not to jeopardize Japan's recovery.

4. (S) France is very concerned about Iran's nuclear program, according to Breton. He welcomed France's cooperation with the U.S., but fears that Iran is only one year to 18 months away from developing nuclear weapon capability.

5. (SBU) The short term consequence of Mideast turmoil is the volatility of the price of oil. Breton said he has been

talking about this with the UK Finance Minister, Gordon Brown, and would like to draw into these discussions the new US Treasury Secretary, Hank Paulson, whom he says he knows well. The energy sector needs more investment, greater transparency in supply and demand, and an increased margin between production capacity and demand to dampen the impact of temporary external shocks (namely, armed conflicts, natural disasters and terror threats).

¶6. (C) The Ambassador thanked Breton for French willingness to participate in the Iraq Compact launch. (Deputy Treasury Secretary Kimmitt met with Finance and Foreign Ministry

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officials last week -- see reftels.) The Ambassador suggested that if his schedule permits next time, Breton should meet with Deputy Secretary Kimmitt. Breton stated that the most important objective now in Iraq is to achieve political stability. He agreed with the Ambassador that on issues like Lebanon and Syria, the U.S. and France have achieved very good working relations, and that we need to look ahead rather than worry about past differences. He mentioned his efforts to promote greater American understanding of France, by his visits to the U.S. and public appearances there. He plans to continue those efforts.

Doha Doomed

¶7. (C) Breton expressed no ambition on the Doha trade negotiations. He readily agreed with the Ambassador that negotiations are not moving. Breton argued that WTO DG Pascal Lamy's strategy on the multilateral talks is not working. There is excessive focus on agriculture. Breton mentioned that his background is in the high-tech sector, and that is where he sees that progress can be made, especially

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on intellectual property, as well as in trade in services and manufactured goods. While everyone needs to make an effort, the EU has gone as far as it can on agriculture. The world has two very large abnormal agricultural markets: the U.S. and the EU, both subsidized. For the EU, the question is not so much one of trade, but of security in the food supply. Breton said he would never support more cuts in subsidies because it is a matter of European security, and anyone who thinks otherwise does not understand the real world. Subsidies are modern phenomena, in a world that faces pandemics and other food security threats every month. Two-thirds of the European countries understand agriculture that way, in addition to its importance for social stability. Subsidies are the cost of being able to eat. Therefore, we need to stop discussing agriculture, and look at other areas where we can agree.

¶8. (C) Econ M/C took issue with Breton's assertions, pointing out that for development purposes the world needs an ambitious agreement. Breton wryly noted that he knows why farmers are subsidized. People are too emotional now. He argued that we need to cool down a bit, and then start looking for agreement elsewhere.

Boeing/Airbus Trade Dispute

¶9. (SBU) The Ambassador warned about the negative consequences of European launch aid for the Airbus A350. Breton was noncommittal, noting simply that he recently had met with the Boeing CEO, had a good discussion, but it is a difficult industry.

French Politics Intrude on Economic Plan

¶10. (SBU) Breton and the Ambassador traded views on the U.S. and French economies. Breton expressed satisfaction that France would achieve its macroeconomic objectives this year. Domestic consumption and export growth have been good. Economic growth should be within his predicted range of 2.0

to 2.5 percent for 2006. He thinks that is satisfactory, but French growth could be much higher.

¶11. (C) Responding to the Ambassador's questioning, Breton said he could get the French economy to GDP growth rates of 3 to 4 percent in two to three years. However, he noted this will be impossible if Socialist candidate Segolene Royal is elected President in the 2007 election. Breton said she has a scary program and no understanding of economics.

¶12. (SBU) Breton explained the changes (highlighted in the recent IMF Article 4 annual report on France) that he already has instituted, such as limiting the wealth tax and the estate tax, to stimulate investment and promote consumption. He added that his efforts to improve the French economy were possible only by making regulatory changes with as little publicity as possible. This led to a discussion about French tax levels in general, with Breton claiming that overall taxes are lower in France than in New York City, if one factors in all the state and local taxes imposed on residents of the Big Apple. He promised to provide additional details to the Ambassador

COMMENT

¶13. (C) Breton was at his most &political8 in this discussion, demonstrating an appetite to think strategically about regional conflicts and global issues, especially in terms of the probable economic consequences of undesirable political developments. His unyielding line on the Doha trade round comes as no surprise, given the tough line laid down on agriculture by French President Chirac, as well as the fact that discussions were breaking down in Geneva as Breton spoke. As for his economic outlook, Breton's extended timeline on doubling French GDP growth suggests that Breton believes he could continue as Finance Minister in a French government headed by Nicolas Sarkozy following the 2007 presidential election.

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